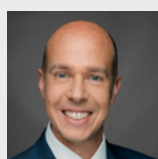




## China Unexplored

# Going beyond the obvious to find tomorrow's winners



**Rob Secker**  
Portfolio Specialist,  
Emerging Markets

## China Evolution Equity: Unique exposure to the China opportunity set

China is an economy that has been undergoing unprecedented change, a dynamic that has helped foster an abundant investment landscape.

Yet, while China is a large and liquid market, it remains largely under-researched and under-owned, offering exciting opportunities for skilled, active investors. Indeed, the majority of portfolios accessing China stock markets typically limit their exposure to the well-understood and well-owned mega caps (see [Why there's more to China than just big tech](#)). Think the likes of Tencent, Alibaba, Baidu, and China Mobile, for example. While many of the mega caps have been extremely successful and can argue a strong investment case for future growth, we believe investors can diversify their portfolio and optimise their investment return by looking beyond this small group of names.

The specific securities identified and described are for informational purposes only and do not represent recommendations.

For investment professionals only. Not for further distribution.

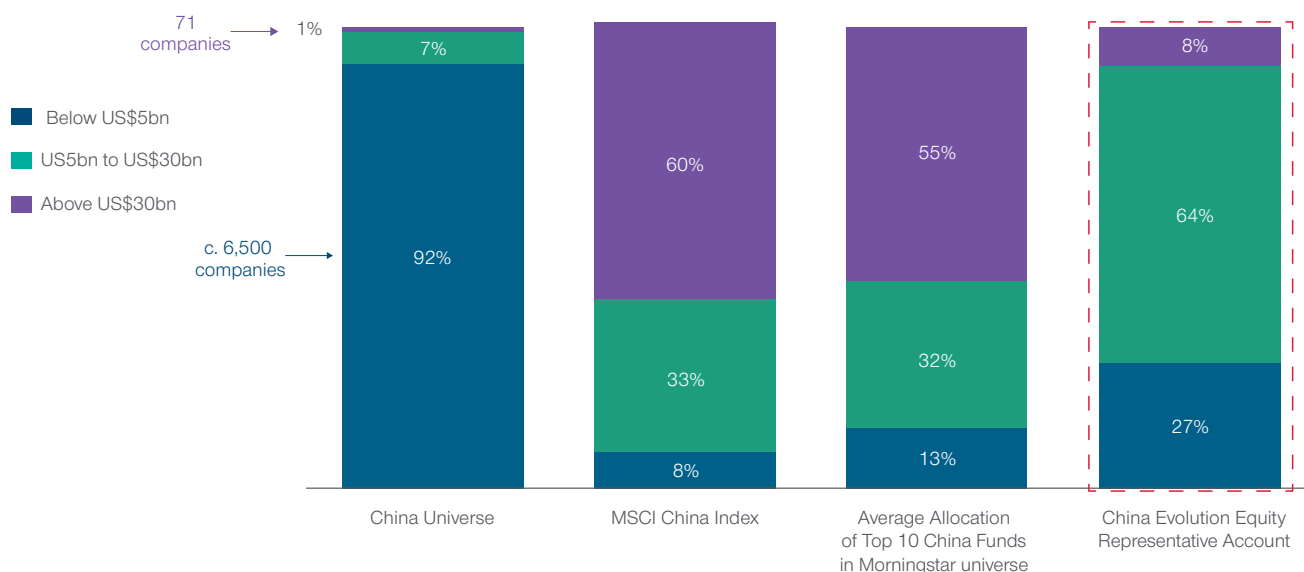
April 2023

### A strategy that looks beyond the index

The T. Rowe Price China Evolution Equity Strategy has been designed to do just that – seeking to exploit inefficiencies across the full spectrum of Chinese markets (both onshore and offshore) to find the best risk-reward opportunities.

We focus on areas of the market that may be overlooked by some investors, going beyond the 100 largest companies by market cap – that dominate the index and are commonly seen in other China portfolios – to identify future winners and mispriced opportunities from across the expanding universe of some 6,500 names or more.

**Fig. 1:** China's opportunity set is much more than the mega caps  
Market cap breakdown by stock count (%), as at 31 December 2022



Sources: MSCI, HKex, FactSet, Wind, Morningstar. Financial data and analytics provider FactSet. Copyright 2023 FactSet. All Rights Reserved.

\* The Top 10 China funds refer to the funds in the Morningstar China Equity universe, measured by AUM.

The representative portfolio is an account in the composite we believe most closely reflects current portfolio management style for the strategy. Performance is not a consideration in the selection of the representative portfolio. The characteristics of the representative portfolio shown may differ from those of other accounts in the strategy. Please see the GIPS® Composite Report for additional information on the composite. Please see Additional Disclosures for information about this MSCI and Morningstar information.

### Local expertise in unexplored markets

Finding such successful companies across China's diverse and expanding universe is critically dependent on robust local research and understanding. T. Rowe Price has a long history of investing in China, and we were early investors in A-shares through the QFII and Stock Connect programs. We currently manage assets totalling over US\$17 billion in Chinese equities for our clients (as at 31 December 2022).

With a local investment team in Asia since 1987, and having more recently established an office in Shanghai, we have been able to accumulate extensive local knowledge and build long-term relationships with companies, suppliers, competitors and industry experts. All essential to our fundamental, bottom-up research designed to seek out the best risk-reward opportunities.


Today, we have one of the industry's strongest in-house research teams dedicated to the Asia region and specifically to China. Portfolio manager, Wenli Zheng, has been investing in China since 2010. He works closely with a team of over 20 local, on-the-ground analysts in Asia focused solely on opportunities in China. He is further supported by our emerging market debt analysts, ESG specialist teams and over 100 sector and regional specialists who provide a broader perspective on what is happening globally and help evaluate the potential impact for companies in China.

The stability of our research team, strong collaboration and continuous exchange of information between the portfolio manager, our native Chinese analysts and the broader global platform are the key to finding and understanding the companies we believe are best positioned to prosper in an evolving economy like China.


Unique exposure to China’s future growth

The team focuses on identifying outlier companies, beyond the widely owned mega-cap stocks – that small percentage of exceptional companies which drive the majority of market returns. Currently, this typically means investing in companies with a market capitalisation below US\$30 billion at purchase (although we are not compelled to sell should a stock go above this threshold provided the investment thesis remains intact). But these are not necessarily small or mid-sized companies, most are still sizeable, multi-billion dollar companies – established, robust businesses with good liquidity in their shares.


The businesses we seek to find tend to fall into one of three buckets:

**Compounders**

- These are long-term core holdings, typically innovative, scalable businesses in large, changing markets run by strong management teams that potentially offer durable growth that can compound over multiple years.

**Nonlinear growers**

- Chosen for their potential for medium-term outsized returns, these are companies with accelerating growth from a new product cycle, a change in the industry cycle, or transition from an investment cycle to a harvest cycle – step-changes in growth often missed or underappreciated by the market.

**Special situations**

- These are companies with an asymmetric risk-reward profile; mispricing opportunities driven by transitory and fixable issues, resulting from short-term pressures such as forced selling, restructuring, weak sentiment, macro concerns or misunderstood business models.

In addition, the China Evolution Equity Strategy uses ESG integration as part of its investment process. This means incorporating environmental, social, and governance (ESG) factors to enhance investment decisions. Our philosophy is that ESG factors are a component of the investment decision, meaning that they are not considered separately from traditional fundamental analysis.

*“Investing beyond the mainstream holdings in China sets us apart. We believe this strategy can play a key role in complementing investors’ existing China exposure and capturing the exciting potential for grass-roots growth in their portfolio.”*

Wenli Zheng, Portfolio Manager

A differentiated and complementary portfolio

By targeting those stocks which are overlooked and under owned, our China Evolution Equity Strategy is incredibly different from both its benchmark and its peers. With an active share of 90%+, the portfolio of 40-80 stocks is primarily driven by idiosyncratic factors which typically exhibit a low correlation to macro influences.

We are unconstrained by index, style or sector with the portfolio largely driven by bottom-up considerations where we believe we have unique insights beyond the consensus names. We think that China market returns (and, therefore, by default many investor portfolios) are too heavily concentrated on the internet sector, whereas we seek to provide a very differentiated source of alpha generation with contributors to performance coming from all types of sectors, ranging from traditional industrials to innovative enablers of the green transition.

The result is a portfolio that, in our view, is very different from both the MSCI China Index and our peers, and that can thereby complement most investors’ existing China exposure. A portfolio that, we believe, stands out from the crowd.

**Please contact us for more information on our China Evolution Equity Strategy and how we can help.**

China Evolution Equity Strategy

Benchmark*	MSCI China All Shares Index Net
Inception	December 2019
Portfolio Manager	Wenli Zheng
Style	Agnostic, but with growth bias
No of holdings	40-80

\* The manager is not constrained by the benchmark, which is used for performance comparison purposes only.

# GIPS® Composite Report

## China Evolution Equity Composite

Period Ended December 31, 2022

Figures Shown in U.S. dollar

	2020	2021	2022
<b>Gross Annual Returns (%)</b>	61.65	4.77	-24.89
<b>Net Annual Returns (%)<sup>1</sup></b>	59.48	3.31	-25.97
<b>MSCI China All Shares Index Net (%)</b>	33.41	-12.91	-23.61
<b>Composite 3 Yr St. Dev.</b>	N/A	N/A	25.56
<b>MSCI China All Shares Index Net 3-Yr St. Dev.</b>	N/A	N/A	24.03
<b>Composite Dispersion</b>	N/A	N/A	N/A
<b>Comp. Assets (Millions)</b>	139.6	308.9	286.5
<b># of Accts. in Comp.</b>	3	3	4
<b>Total Firm Assets (Billions)</b>	1,482.5	1,653.2	1,237.4 <sup>2</sup>

<sup>1</sup> The fee rate used to calculate net returns is 1.40%. This represents the maximum fee rate applicable to all composite members. **Past performance is not a reliable indicator of future performance.**

<sup>2</sup> Preliminary - subject to adjustment.

T. Rowe Price (TRP) claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. TRP has been independently verified for the 26 year period ended June 30, 2022 by KPMG LLP. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm wide basis. Verification does not ensure the accuracy of any specific composite presentation.

TRP is a U.S. investment management firm with various investment advisers registered with the U.S. Securities and Exchange Commission, the U.K. Financial Conduct Authority, and other regulatory bodies in various countries and holds itself out as such to potential clients for GIPS purposes. TRP further defines itself under GIPS as a discretionary investment manager providing services primarily to institutional clients with regard to various mandates, which include U.S., international, and global strategies but excluding the services of the Private Asset Management group. As of October 1, 2022, there is no minimum asset level for portfolio inclusion into the composite. Prior to October 2022, the minimum asset level for equity portfolios to be included in composites was \$5 million and prior to January 2002 the minimum was \$1 million. The minimum asset level for fixed income and asset allocation portfolios to be included in composites was \$10 million; prior to October 2004 the minimum was \$5 million; and prior to January 2002 the minimum was \$1 million. Valuations are computed and performance reported in U.S. dollars.

Gross performance returns are presented before management and all other fees, where applicable, but after trading expenses. Net of fees performance reflects the deduction of the maximum fee rate applicable to all composite members as shown above. Gross performance returns reflect the reinvestment of dividends and are net of non-reclaimable withholding taxes on dividends, interest income, and capital gains. Gross performance returns are used to calculate presented risk measures. Effective June 30, 2013, portfolio valuation and assets under management are calculated based on the closing price of the security in its respective market. Previously portfolios holding international securities may have been adjusted for after market events. Policies for valuing portfolios, calculating performance, and preparing compliant presentations are available upon request. Dispersion is measured by the standard deviation across asset weighted portfolio returns represented within a composite for the full year. Dispersion is not calculated for the composites in which there are five or fewer portfolios.

Some portfolios may trade futures, options, and other potentially high risk derivatives that may create leverage and generally represent in aggregate less than 10% of a portfolio.

Benchmarks are taken from published sources and may have different calculation methodologies, pricing times, and foreign exchange sources from the composite.

Composite policy requires the temporary removal of any portfolio incurring a client initiated significant cash inflow or outflow greater than or equal to 15% of portfolio assets. The temporary removal of such an account occurs at the beginning of the measurement period in which the significant cash flow occurs and the account re enters the composite on the last day of the current month after the cash flow. Additional information regarding the treatment of significant cash flows is available upon request.

The firm's list of composite descriptions, a list of limited distribution pooled fund descriptions, and a list of broad distribution pooled funds are available upon request. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.

## Fee Schedule - China Evolution Equity Composite

as of 31 December 2022

<b>First 50 million (USD)</b>	80 basis points
<b>Next 50 million (USD)</b>	75 basis points
<b>Above 100 million (USD)</b>	70 basis points on all asset <sup>1</sup>
<b>Above 200 million (USD)</b>	60 basis points on all asset <sup>1</sup>
<b>Minimum separate account size</b>	50 million (USD)

<sup>1</sup> A transitional credit is applied to the fee schedule as assets approach or fall below the breakpoint.

China Evolution Equity Composite. The China Evolution Equity Composite seeks long-term capital appreciation primarily through investments in common stocks of Chinese companies. It goes beyond the top 100 largest companies by full market cap in the China universe to identify future winners and mispricing opportunities. The opportunity set is defined as all Chinese companies listed onshore and offshore in the China Universe. The objective is to capitalize on market inefficiencies and generate sustainable idiosyncratic alpha. (Created December 2019; inception 31December 2019)

## Risks

The following risks are materially relevant to the portfolio.

**Country risk (China)** - Chinese investments may be subject to higher levels of risks such as liquidity, currency, regulatory and legal risks due to the structure of the local market.

**Currency risk** - Currency exchange rate movements could reduce investment gains or increase investment losses

**Emerging markets risk** - Emerging markets are less established than developed markets and therefore involve higher risks.

**Small and mid-cap risk** - Stocks of small and mid-size companies can be more volatile than stocks of larger companies.

**Stock Connect risk** - Stock Connect is subject to higher regulatory, custody, and default risks as well as liquidity risk and quota limitations.

## General Portfolio Risks

**Equity risk** - Equities can lose value rapidly for a variety of reasons and can remain at low prices indefinitely.

**ESG and Sustainability risk** - ESG and Sustainability risk may result in a material negative impact on the value of an investment and performance of the portfolio.

**Geographic concentration risk** - Geographic concentration risk may result in performance being more strongly affected by any social, political, economic, environmental or market conditions affecting those countries or regions in which the portfolio's assets are concentrated.

**Hedging risk** - Hedging measures involve costs and may work imperfectly, may not be feasible at times, or may fail completely.

**Investment portfolio risk** - Investing in portfolios involves certain risks an investor would not face if investing in markets directly.

**Management risk** - Management risk may result in potential conflicts of interest relating to the obligations of the investment manager.

**Market risk** - Market risk may subject the portfolio to experience losses caused by unexpected changes in a wide variety of factors.

**Operational risk** - Operational risk may cause losses as a result of incidents caused by people, systems, and/or processes.

## Additional disclosures

**Morningstar** – ©2023 Morningstar, Inc. All rights reserved. The information contained herein: (1) is proprietary to Morningstar and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete, or timely. Neither Morningstar nor its content providers are responsible for any damages or losses arising from any use of this information. **Past performance is no guarantee of future results.**

**MSCI:** MSCI and its affiliates and third party sources and providers (collectively, "MSCI") makes no express or implied warranties or representations and shall have no liability whatsoever with respect to any MSCI data contained herein. The MSCI data may not be further redistributed or used as a basis for other indices or any securities or financial products. This report is not approved, reviewed, or produced by MSCI. Historical MSCI data and analysis should not be taken as an indication or guarantee of any future performance analysis, forecast or prediction. None of the MSCI data is intended to constitute investment advice or a recommendation to make (or refrain from making) any kind of investment decision and may not be relied on as such.

## Important Information

**This material is being furnished for general informational and/or marketing purposes only.** The material does not constitute or undertake to give advice of any nature, including fiduciary investment advice, nor is it intended to serve as the primary basis for an investment decision. Prospective investors are recommended to seek independent legal, financial and tax advice before making any investment decision. T. Rowe Price group of companies including T. Rowe Price Associates, Inc. and/or its affiliates receive revenue from T. Rowe Price investment products and services. **Past performance is not a reliable indicator of future performance.** The value of an investment and any income from it can go down as well as up. Investors may get back less than the amount invested.

The material does not constitute a distribution, an offer, an invitation, a personal or general recommendation or solicitation to sell or buy any securities in any jurisdiction or to conduct any particular investment activity. The material has not been reviewed by any regulatory authority in any jurisdiction.

Information and opinions presented have been obtained or derived from sources believed to be reliable and current; however, we cannot guarantee the sources' accuracy or completeness. There is no guarantee that any forecasts made will come to pass. The views contained herein are as of the date written and are subject to change without notice; these views may differ from those of other T. Rowe Price group companies and/or associates. Under no circumstances should the material, in whole or in part, be copied or redistributed without consent from T. Rowe Price.

The material is not intended for use by persons in jurisdictions which prohibit or restrict the distribution of the material and in certain countries the material is provided upon specific request.

It is not intended for distribution to retail investors in any jurisdiction.

**DIFC** - Issued in the Dubai International Financial Centre by T. Rowe Price International Ltd which is regulated by the Dubai Financial Services Authority as a Representative Office. For Professional Clients only.

**EEA** - Unless indicated otherwise this material is issued and approved by T. Rowe Price (Luxembourg) Management S.à r.l. 35 Boulevard du Prince Henri L-1724 Luxembourg which is authorised and regulated by the Luxembourg Commission de Surveillance du Secteur Financier. For Professional Clients only.

**South Africa** - Issued in South Africa by T. Rowe Price International Ltd (TRPIL), 60 Queen Victoria Street, London, EC4N 4TZ, is an authorised financial services provider under the Financial Advisory and Intermediary Services Act, 2002 (Financial Services Provider (FSP) Licence Number 31935), authorised to provide "intermediary services" to South African Investors. TRPIL's Complaint Handling Procedures are available to clients upon request. The Financial Advisory and Intermediary Services Act Ombud in South Africa deals with complaints from clients against FSPs in relation to the specific services rendered by FSPs. The contact details are noted below: Telephone: +27 12 762 5000, Web: [www.faisombud.co.za](http://www.faisombud.co.za), Email: [info@faisombud.co.za](mailto:info@faisombud.co.za)

**Switzerland** - Issued in Switzerland by T. Rowe Price (Switzerland) GmbH, Talstrasse 65, 6th Floor, 8001 Zurich, Switzerland. For Qualified Investors only.

**UK** - This material is issued and approved by T. Rowe Price International Ltd, 60 Queen Victoria Street, London, EC4N 4TZ which is authorised and regulated by the UK Financial Conduct Authority. For Professional Clients only.

© 2023 T. Rowe Price. All Rights Reserved. T. ROWE PRICE, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/ or apart, trademarks of T. Rowe Price Group, Inc.

CCON0166498 | 202304-2818488

For more information on T. Rowe Price and our investment capabilities, please visit our website:  
**[troweprice.com](http://troweprice.com)**

**T. Rowe Price®**  
INVEST WITH CONFIDENCE